

Message Text

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ACTION EB-07

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FM AMEMBASSY KINSHASA
TO SECSTATE WASHDC 1423

LIMITED OFFICIAL USE SECTION 1 OF 2 KINSHASA 1550

E.O. 11652: N/A
TAGS: BEXP, CG
SUBJECT: COUNTRY COMMERCIAL PROGRAM RECOMMENDATIONS

REF: STATE A-9016; STATE 5312

DEPT PASS: DEPARTMENT OF COMMERCE

1. FOLLOWING ARE THE RECOMMENDED MODIFICATIONS OF THE FY 75 CCP FOR INCLUSION IN THE FY 76 PROGRAM:

SECTION I OVERVIEW

2. THE ECONOMIC/COMMERCIAL SITUATION IN ZAIRE HAS CHANGED CONSIDERABLY SINCE THE FY 75 CCP WAS WRITTEN AND IT CONTINUES TO CHANGE. THIS PERFORCE HAS MADE IT NECESSARY TO REEXAMINE THE PRESENT CCP IN AN EFFORT TO DETERMIN HOW MUCH WE REALISTICALLY CAN BE EXPECTED TO ACCOMPLISH CONSIDERING THE UNANTICIPATED WORK LOAD BROUGHT ON BY THE DEC. 30 RADICALIZATION MEASURES. SINCE WE HAVE NO CLEAR ANSWER TO THIS QUESTION, THIS MAKES IT EVEN MORE DIFFICULT TO MAKE VALID PROJECTIONS FOR THE FY 76 PROGRAM. NOTWITHSTANDING THE GREATLY REDUCED AVAILABILITY OF FOREIGN EXCHANGE PROJECTED FOR THE COMING YEAR, THE FIRST COMMERCIAL GOAL FOR FY 76 WILL CONTINUE TO BE GAINING A GREATER SHARE OF THE ZAIRIAN MARKET. IT MUST BE UNDERSTOOD, HOWEVER, THAT THE SECON GOAL OF PROTECTING AND MAINTAINING PRESENT US INVESTMENT IN ZAIRE MAY FROM TIME TO TIME TAKE PRECEDENCE. THE REMAINING TWO GOALS ARE: (A) FACILITATE US INVESTMENT IN LIMITED OFFICIAL USE

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PROJECTS MUTUALLY BENEFICIAL TO ZAIRE AND THE US AND

(B) MAINTAIN ACCESS TO ZAIRIAN RESOURCES.

3. POLICY RELATIONSHIP BETWEEN ZAIRE AND THE US. DURING THE PAST YEAR, ZAIRIAN LEADERSHIP HAS TAKEN FURTHER STEPS TOWARD A "NON-ALIGNED STANCE" BY ESTABLISHING CLOSER TIES WITH COMMUNIST AND THIRD WORLD STATES. ADDITIONALLY IT HAS TAKEN MEASURES TO MAKE THE POPULATION AND ECONOMY MORE RESPONSIVE TO WHAT IT CONSIDERS TO BE THE COUNTRY'S DEVELOPMENTAL NEEDS. THESE EFFORTS ARE LEADING TO A LOOSENING OF THE SPECIAL TIES BETWEEN ZAIRE AND THE US AND HAVE PRECIPITATED A CERTAIN DETERIORATION IN THE HERETOFORE FAVORABLE BUSINESS AND INVESTMENT CLIMATE IN THE COUNTRY. ALTHOUGH US GOODS AND SERVICES WILL CONTINUE TO ENJOY A STRONG POSITION IN THE ZAIRIAN MARKET, INCREASED COMPETITION IS TO BE EXPECTED FROM THE MORE RECENT SOCIALIST COUNTRY ENTRANTS INTO THE ZAIRIAN MARKET. MOREOVER, US INTERESTS, LARGELY SPARED FROOM ZAIRIANIZATION DECREES OVER A YEAR AGO, NOW FACE NEW PRESSURES FROM THE MORE RECENT NATIONALIZATTION MEASURES. (EXCEPT THOSE COVERED BY THE INVESTMENT CODE).

4. CURRENT ECONOMIC CONDITIONS. THE COMBINATION OF THE NOV. 30, 1973 MEASURES WHICH DELIEVERED MUCH OF THE FOREIGN DOMINATED COMMERCIAL SECTOR INTO PRIVATE ZAIRIAN HANDS ALONG WITH HIGH WORLD COPPER PRICES GENERATED AN OPTIMISTIC AND EXPANSIVE PHASE IN THE ZAIRIAN ECONOMY DURING THE ELARLIER PART OF 1974. ALTHOUGH THERE WAS GROWING CONCERN THAT ZAIRIANIZATION WAS IN SOME WAYS HAVING A DEPRESSIVE EFFECT ON THE ECONOMY, ESPECIALLY IN THE RURAL AREAS, GOVERNMENT AS WELL AS PRIVATE INVESTMENT AND CONSUMPTION CLIMBED PRECIPTIOUSLY. THE COUNTRY WAS THEREFORE ILL-PREPARED FOR LAST SUMMER'S DROP IN COUPLED WITH A CONTINUING RISE IN THE PRICE OF THE IMPORTS AS A RESULT, COPPER PRICES AND A RELATIVELY COMFORTABLE FOREIGN EXCHANGE SURPLUS ALL TOO QUICKLY DISAPPEARED BY YEAR'S END. MEANWHILE, THE HEAVILY INCREASING DEMAND FROM SOME OF THE BETTER-OFF ELEMENTS IN THE POPULATION ALONG WITH STAGNATING OR EVEN DECLINING PRODUCTVIETY, ESPEC-LIMITED OFFICIAL USE

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IALLY IN THE RURAL AREAS, FUELED AN INFLATIONARY TREND PARTICULARLY DAMAGING TO LOWER INCOM GROUPS.

5. TO COUNTER THE DEVELOPING MALAISE IN THE ECONOMY AS WELL AS CONCENTRATE THE MAJOR ECONOMIC RESOURCES OF THE COUNTRY INTO THE HANDS OF THE STATE, ALL LARGE BUSINESS ENTERPRISES NOT COVERED BY THE INVESTMENT CODE WERE ORDERED NATIONALIZED. THE CONSTRUCTION INDUSTRY WAS

COMPLETELY NATIONALIZED. AT THE PRESENT TIME THE GOZ IS ATTEMPTING TO BRING ITS IMPORTS IN LINE WITH CURRENT INCOME. MOREOVER, THE NATIONALIZATION MEASURES ARE PUSHING TO THE FORE NEW AND OFTEN UNTRIED PERSONNEL INTO RESPONSIBLE MANAGEMENT POSITIONS. THERE IS AS YET NO RELIABLE INDICATION AS TO HOW ZAIRE WILL WEATHER THIS PERIOD AHEAD. THE SHORT TO MEDIUM TERM OUTLOOK, HOWEVER, IS NOT FAVORABLE.

6. OVERALL ECONOMIC PROBLEMS. ALTHOUGH GENEROUSLY BLESSED WITH A RANGE OF MINERAL AND AGRICULTURAL RESOURCES, ZAIRE, AS RECENT EVENTS HAVE SHOWN, REMAINS OVERLY DEPENDENT ON THE COPPER INDUSTRY FOR THE GREATER PART OF ITS NATIONAL INCOME. MEANWHILE, AGRICULTURAL PRODUCTIVITY CONTINUES TO LAG. NOT ONLY IS ZAIRE PRODUCING LESS FOR THE INTERNATIONAL MARKET, IT NOW MUST IMPORT MORE TO FEED ITS OWN POPULATION. DEVELOPMENT OF THE AGRICULTURAL AND MINERAL POTENTIAL WILL REQUIRE MAJOR INVESTMENT IN INFRASTRUCTURE PROJECTS, ALL MODES OF TRANSPORT AS WELL AS IN INDUSTRIES WITH DEVELOPMENTAL POTENTIAL. TO ACHIEVE THESE GOALS ZAIRE MUST EITHER REGAIN A SIGNIFICANT PORTION OF ITS COPPER REVENUES OR CUT BACK SHARPLY ON "NON-ESSENTIAL" IMPORTS. THIS WOULD STILL LEAVE FOOD IMPORTS A MAJOR CONSTRAINT AGAINST THE MORE OPTIMAL USE OF THE NATIONAL INCOME. SIGNIFICANT RECOVERY OF COPPER PRICES IS AT LEAST 1 1/2 YEARS AWAY. HOWEVER, SOME RELIEF FROM THE CURRENT FOREIGN EXCHANGE PINCH MAY BE EXPECTED WHEN THE OFF-SHORE OIL FIELD COMES ON STREAM DURING THE LATTER PART OF THE YEAR.

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7 STATUS OF US TRADE. THANKS TO PREVIOUS US MARKET PENETRATIONS IN SUCH FIELDS AS AVIATION, AUTOMOTIVE & MILITARY EQUIPMENT, HOTEL DEVELOPMENT AND MANAGEMENT, ENGINEERING AND EVEN ENTERTAINMENT (I.E. BOXING), US GOODS AND SERVICES ENJOY A FAVORABLE ENTREE IN ZAIRE. ALTHOUGH 1974 TRADE STATISTICS ARE NOT YET AVAILABLE, IMPORTS OF US GOODS ARE EXPECTED TO SHOW A NEW HIGH. THE MAJOR FORSEEABLE PROBLEM IN US-ZAIRE COMMERCIAL RELATIONS WILL BE THE FINANCING OF NEW IMPORTS. THIS, IN TURN, WILL BE HEAVILY INFLUENCED BY ZAIRE'S ABILITY TO MEET PREVIOUS FINANCIAL COMMITMENTS. NEW PAYMENT TERMS FOR IMPORTS JUST ANNOUNCED BY THE BANK OF ZAIRE REQUIRE THAT A FOREIGN SUPPLIER AGREE EITHER TO A 6 PERCENT REDUCTION IN THE LISTED PRICE OF GOODS DESTINED FOR ZAIRE OR A GRANT OF 180 DAY CREDIT INTEREST FREE. THIS IS LIKELY TO BE ONE OF THE MAJOR IMPEDIMENTS TO INCREASING US-ZAIRE TRADE DURING THE COMING YEAR.

SUMMARY OF PROGRAM ACTIVITIES

8. STRINGENTLY REDUCED AVAILABILITY OF FOREIGN EXCHANGE AND THE DECREASED POSSIBILITIES OF OBTAINING OUTSIDE FINANCING WILL MAKE ZAIRE A LESS ATTRACTIVE TARGET FOR TRADE PROMOTION EVENTS DURING THE COMING YEAR. YET CERTAIN AREAS WILL CONTINUE TO HAVE A HIGH PRIORITY CLAIM ON AVAILABLE RESOURCES. ONE OF THESE WILL BE TRANSPORTATION OR MORE SPECIFICALLY AIR TRANSPORT. THEREFORE OF THE FIVE TARGET INDUSTRIES TO RECEIVE PRIMARY PROMOTION IN FY 1976 ONLY THE ALREADY TENTA-LIMITED OFFICIAL USE

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TIVELY SCHEDULED AVIONIC AND AVIATION GROUND SUPPORT EQUIPMENT MISSION WOULD HAVE A FAIR CHANCE OF ACHIEVING SIGNIFICANT SALES IN THIS MARKET. THE METALWORKING & FINISHING MACHINERY & EQUIPMENT MISSION WOULD BE ONLY A DISTANT SECOND AND AT THIS POINT SHOULD BE DEFERRED FOR A LATER APPRAISAL.

9. MAJOR EXPORT PRJECT ASSISTANCE. TO DATE NO SUB-STANTIVE CHANGES ARE INDICATED FOR MEP PROJECTS COVERED IN THE 1975 PROGRAM TOTAL EXPENDITURES FOR THE SMTF COPPER PROJECT SHOULD BE REVISED UPWARD TO READ \$600 MILLION.

10. NTM PENETRATIONS. PREVIOUSLY CITED CONDITIONS WILL ALSO AFFECT POSSIBLE NTM PENETRATIONS UNLESS, OF COURSE, SOME US FIRMS ARE WILLING TO GO ALONG WITH THE RECENTLY IMPOSED FINANCING CONDITIONS AS A MEANS OF GAINING ACCESS TO THIS MARKET. THE COMMERCIAL REORIENTATION EXPECTED

TO TAKE PLACE IN 1974 IN THE WAKE OF THE ZAIRIANIZATION DECREES DID NOT OCCUR. (SEE THE WALKER-OCWEIJA LETTER OF FEB. 10 NOW WITH THE NATIONALIZATION OF THE LARGE ENTERPRISES, THERE IS A RENEWED POSSIBILITY THAT SOME REORIENTATION OF TRADE MAY TAKE PLACE. IF SO, THE POST MAY BE SUCCESSFUL IN HELPING RAISE THE NUMBER OF NTM PENETRATIONS.

11. (2) FACILITATE US INVESTMENT IN ZAIRE. NO CHANGE.

12. (3) MAINTAIN US ACCESS TO ZAIRIAN RESOURCES. NO CHANGE.

SECTION IV

13. (I) ACTIONS TARGETED TOWARD SPECIFIC OBJECTIVES.

(AL INCREASE US EXPORTS AND US MARKET SHARE

(1) MAJOR EXPORT PRODUCTS. (NO CHANGE.)

(2) TRADE PROMOTION EVENTS.

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(A) PENDING AVAILABILITY NEW OFFICIALS OF NATIONALIZED FIRMS, A COMMERCIAL SERVICES SEMINAR DURING THE FALL OF 1975.

(B) POSSIBLE TRADE MISSIONS IN AVIONICS AND AVIATION GROUND SUPPORT EQUIPMENT AND METALWORKING AND FINISHING MACHINERY AND EQUIPMENT.

(3) MARKET RESEARCH. (ASSESSED BY COMMERCE.)

(4) EXPORT PROMOTION SERVICES.

(NO ESSENTIAL CHANGES AT THIS TIME.)

(5) POLICY RELATED ACTIONS. WITH ZAIRIANIZATION NOW OVERTAKEN BY NATIONALIZATION, POSTS WILL HAVE INCREASING DEMANDS FOR PROTECTIVE AND COUNSELING SERVICES. ACTIVITIES AND POLICIES OF NEW PUBLIC SECTION ORGANIZATION WILL BE CLOSELY MONITORED TO DETERMINE THEIR EFFECT ON US TRADE AND INVESTMENT.

(6) ECONOMIC/COMMERCIAL REPORTING. (NO CHANGE.)

(B) ORGANIZATION OF ECON/COMM STAFF. IN PART DUE TO DEPARTURE OF ECONOMIC ANALYST FSO AT TIME HEAVILY INCREASED NECESSITY OF MONITORING ZAIRE'S FINANCIAL AND BANKING PROBLEMS, SIGNIFICANT AMOUNTS OF THE ANALYST'S JOB HAVE BEEN ASSUMED BY

ASST.COMM. ATTACHE HAMILTON. HE HAS
ALSO TAKEN ON A MAJOR RESPONSIBILITY FOR
MONITORING THE NATIONALIZATION MEASURES.
THIS MAY INDICATE SOME ADJUSTMENT IN THE
DUTIES OF THE SECTION'S OTHER OFFICERS.
OTHERWISE THE ORGANIZATIONAL FORMAT FOR
OFFICERS WILL REMAIN ESSENTIALLY THE SAME.
IN ADDITION TO THE 1975 ORGANIZATIONAL CHART, THE
EMBASSY WAS GRANTED AUTHORIZATION TO HIRE A CLERK/TYPIST-
MESSENGER FOR THE ECONOMIC COMMERCIAL SECTION. DUE TO
POOR COMMUNICATION AND TRANSPORTATION FACILITIES AS WELL
AS CLERICAL WORK LOAD, IT WAS FOUND THAT THE FSL COMMERCIAL
CLERICAL ASSISTANT AND LIBRARIAN WERE SPENDING LARGE
AMOUNTS OF TIME ENGAGED IN TASKS NECESSARY TO ACCOMPLISH
THE UNIT'S MISSION, BUT ONLY MARGINALLY RELATED
TO THEIR PRIMARY FUNCTIONS.

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